Is There A Future For The Family Farm?

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***Dennis Martin*, OMAFRA Dairy Cattle Specialist**

Table of Contents

1. Introduction
2. Table #1: 1998 Tie Stall Summary for Western Ontario - Average of 11 Holstein Farms
3. Table #2: 1998 Tie Stall Holstein Summary - For 6 Cost Efficient Farms
4. For more information...

Introduction

Earlier this year I travelled across southwestern Ontario participating in numerous seminars, talking to concerned producers about their future in the dairy industry. What size of operation am I going to need to survive? Is there a future for a 40 cow herd? Is it possible to finance and cash flow a major expansion with borrowed capital? If so, is this the "right time" to expand?

These were some very common questions raised at OMAFRA workshops delivered across my new territory from Owen Sound to Windsor. It seems most people have an opinion regarding future herd size, that it will increase, but fewer have explanation of how or why to expand. Yes, it would be very easy for me to say "expand" but it just isn't that simple. Some people may have good reason to take more risk than others. The reality is it still takes a pretty good cow to service $10,000 to $12,000 worth of debt.

Current quota and building costs are about twice this value per cow.

The take home message regarding expansion is very clear: Cash is king! Or, if you do not have the luxury of a large cash reserve, be prepared for a major debt load. If history repeats itself, capital assets such as land, buildings and quota, will be a great investment but there are no guarantees. Profit is a return to risk. The secret is to manage risk, not necessarily avoid risk.

Some producers are telling me they feel uncomfortable about following an expansion trend that will reduce percentage equity and increase debt load. Many families are at a stage in life where a huge debt is just not appealing! The bottom line is make decisions based on what your financial and production records are telling you, as well as your family's personal goals, not what might be taking place in your immediate area.

I can't predict the future, and I'm not going to tell you how many cows to milk but I can tell you the low cost well managed 40 cow family farm is currently doing just fine. If you have any doubt, please take a look at Table #1 and Table #2 that summarizes Holstein tie stall farms from Western Ontario. How do you compare?

| Top of Page |

Table #1

1998 Tie Stall Summary for Western Ontario
Average of 11 Holstein Farms

FARM DATA

Average Number of Cows (milking and dry)	39	Approx. how much over quota did you ship? %	4
Daily Quota	33	Milk sold per cow	8,263
Litres of Milk Sold	321,508	Int. & Princ./litre	$0.15
Int. & Prin. Payment (not to exceed 20¢/litre)	49,177	Tillable Acres per Cow	4.7
Number of Tillable Acres - Owned & Rented	184		

FARM REVENUE	Whole Farm	Per Litre	Dairy Enterprise	Per Litre
Milk and Subsidy (gross)	182,764	0.57	182,764	0.57
Cattle Sales	17,602	0.05	17,602	0.05
Crop Sales	14,897	0.05	909	0.00
Other Income	4,598	0.01	1,645	0.01
Change in Receivable & Inventory	2298	0.01	-2,643	-0.01
(beginning less ending value)	0	0.00	0	0.00
TOTAL FARM REVENUE	$222,160	0.69	$200,277	0.62
FARM EXPENSES				
Purchased Livestock	1,382	0.00	1,382	0.00
Purchased Feed	32,188	0.10	32,188	0.10
Homegrown Feed (transfer value)	xxx		34,749	0.11
Animal Health & Breeding	8,340	0.03	8,340	0.03
Other (Barn Supplies)	5,140	0.02	5,140	0.02
Crop Inputs	19,261	0.06	xxx	xxx
Marketing & Transportation	11,738	0.04	11,724	0.04
Custom Work, Equipment Rent	11,075	0.03	xxx	xxx
Labour (Non Family)	1,976	0.01	1,547	0.00
Machinery Expenses	11,222	0.03	1,218	0.00
Building Expenses	1,932	0.01	1,932	0.01
Heat, Hydro, Phone	6,410	0.02	6,410	0.02
Operating Interest	1,727	0.01	1,366	0.00
Other Cash Expenses	6,993	0.02	6,811	0.02
Taxes & Insurance	7,209	0.02	4,464	0.01
Rent Payments	5,132	0.02	0	0.00
Interest Payments	22,501	0.07	16,876	0.05
Change in Payables	-2,027	-0.01	-1,356	-0.00
TOTAL EXPENSES (not including dep.)	$152,198	$0.47	$132,790	$0.41

Surplus/Deficit	$69,961	$0.22	$67,487	$0.21
60% Rule (measure of cost control)	58.38%		57.88%	

NOTES TO CONSIDER:

A) 60% RULE: Remove interest payments from above and the remaining cash expenses ideally should be less than 60% of revenue (lower the %, the better).

B) FEED FED

Crop	Tonnes	Price	Total	Per Cow
Haylage	212	40	8,491	218
Corn Silage	283	30	8,477	218
Hay	53	100	5,321	137
Dry Corn	66	120	7,916	203
Barley	17	120	2,091	54
Straw	19	50	929	24
Wheat	0	0	0	0
Pasture (Acres)	11	102	1,109	29
Other: Barlage	10	40	400	10
Total Home-Grown Feeds	xxx	xxx	34,749	$893
Purchased Feeds	xxx	xxx	32,188	$827

| Top of Page |

Table #2

1998 Tie Stall Holstein Summary
For 6 Cost Efficient Farms

FARM DATA

Average Number of Cows (milking and dry)	42	Approx. how much over quota did you ship? %	4
Daily Quota	37	Milk sold per cow	8,675
Litres of Milk Sold	364,341	Int. & Princ./litre	$0.15
Int. & Prin. Payment (not to exceed 20¢/litre)	55,714	Tillable Acres per Cow	3.9
Number of Tillable Acres - Owned & Rented	166		

FARM REVENUE	Whole Farm	Per Litre	Dairy Enterprise	Per Litre
Milk and Subsidy (gross)	205,175	0.56	205,175	0.56
Cattle Sales	22,304	0.06	22,304	0.06
Crop Sales	11,784	0.03	1,667	0.00
Other Income	3,561	0.01	991	0.00
Change in Receivable & Inventory	4986	0.01	-1,734	-0.00
(beginning less ending value)	0	0.00	0	0.00
TOTAL FARM REVENUE	$247,809	0.68	$228,403	0.63
FARM EXPENSES				
Purchased Livestock	775	0.00	775	0.00
Purchased Feed	36,074	0.10	36,074	0.10
Homegrown Feed (transfer value)	xxx		38,248	0.10
Animal Health & Breeding	8,054	0.02	8,054	0.02
Other (Barn Supplies)	4,384	0.01	4,384	0.01
Crop Inputs	19,432	0.05	xxx	xxx
Marketing & Transportation	13,038	0.04	13,038	0.04
Custom Work, Equipment Rent	10,704	0.03	xxx	xxx
Labour (Non Family)	478	0.00	192	0.00
Machinery Expenses	12,023	0.03	1,699	0.00
Building Expenses	1,535	0.00	1,535	0.00
Heat, Hydro, Phone	6,589	0.02	6,589	0.02
Operating Interest	1,790	0.00	1,790	0.00
Other Cash Expenses	7,178	0.02	7,136	0.02

Taxes & Insurance	6,855	0.02	4,605	0.01
Rent Payments	3,838	0.01	0	0.00
Interest Payments	25,169	0.07	18,877	0.05
Change in Payables	-2,595	-0.01	-1,365	-0.00
TOTAL EXPENSES (not including dep.)	$155,320	$0.43	$141,630	$0.39

Surplus/Deficit	$92,489	$0.25	$86,773	$0.24
60% Rule (measure of cost control)	52.52%		53.74%	

NOTES TO CONSIDER:

A) 60% RULE: Remove interest payments from above and the remaining cash expenses ideally should be less than 60% of revenue (lower the %, the better).

B) Aim for a 25¢/litre spread between revenue and expenses. Maintaining optimum production and reducing your cost of production is one of the best ways to improve profitability on your farm.

| Top of Page |

This Infosheet was authored by: Dennis Martin, Dairy Cattle Specialist, Clinton Field Office, (519) 482-3428 or 1-800-265-5170

For more information... regarding the future of the family farm contact Dennis Martin at: dmartin@omafra.gov.on.ca

| Top of Page |

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